

**RELEASE AGREEMENT**

This **RELEASE AGREEMENT** (this "Agreement") is dated as of \_\_\_\_\_, 2008, by and among **AMBAC ASSURANCE CORPORATION**, a Wisconsin-domiciled stock insurance corporation ("Ambac"), **THE BANK OF NEW YORK**, a New York banking corporation, duly organized and existing under the laws of the United States (the "Trustee"), **MORGAN STANLEY & CO. INCORPORATED** (the "Remarketing Agent"), **KENTUCKY UTILITIES COMPANY**, a corporation organized and existing under the laws of Kentucky and Virginia (the "Company"), **LOUISVILLE/JEFFERSON COUNTY METRO GOVERNMENT, KENTUCKY**, being a public body corporate and politic duly created and existing as a de jure political subdivision under the Constitution and laws of the Commonwealth of Kentucky (the "Issuer").

**WITNESSETH:**

**WHEREAS**, the Issuer originally issued \$25,000,000 aggregate principal amount of its Pollution Control Revenue Bonds, 2000 Series A (Louisville Gas and Electric Company Project), all of which are outstanding (the "Bonds"), pursuant to an Indenture of Trust, dated as of May 1, 2000, by and between the Issuer and the Trustee (the "Indenture");

**WHEREAS**, the Issuer loaned the proceeds of the Bonds to the Company pursuant to a Loan Agreement, dated as of May 1, 2000, by and between the Issuer and the Company (the "Loan Agreement"), in consideration for which the Company agreed to pay directly to the Trustee amounts that become due in respect of the Bonds;

**WHEREAS**, the Bonds currently bear interest at an Auction Rate (as defined in the Indenture), subject to optional and mandatory tender by the holders thereof pursuant to the terms of the Indenture;

**WHEREAS**, Ambac issued for the benefit of the holders of the Bonds that certain Ambac financial guaranty insurance policy described on Schedule A hereto (the "Policy");

**WHEREAS**, the Company has arranged for the reoffering of the Bonds in connection with the conversion of the interest rate on the Bonds to an alternate rate (as defined in the Indenture);

**WHEREAS**, the Remarketing Agent has purchased the Bonds and will complete the sale and delivery of the Bonds on the date hereof after giving effect to this Agreement;

**WHEREAS**, the Issuer, the Company and the Remarketing Agent desire that the Policy no longer remain in effect and Ambac is willing to consent thereto, subject to the provisions of this Agreement;

**WHEREAS**, in connection with this Agreement, with the consent of the Issuer and the Trustee have amended the Indenture, and the Issuer and the Company have amended the Loan Agreement, to provide for the termination of the Policy and the deletion of applicable bond insurance provisions of the Indenture and the Loan Agreement related to Ambac;

**WHEREAS**, Ambac, the Trustee, the Remarketing Agent, the Company and the Issuer (each a "Party", and together, the "Parties") desire to enter into this Agreement subject to the terms and conditions contained herein;

**NOW, THEREFORE**, in consideration of the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties hereby agree as follows:

## ARTICLE I

### TERMINATION OF THE POLICY

Section 1.1 Termination. Upon the date of execution and amendment of the Indenture and the Loan Agreement in accordance with their respective terms and the execution and delivery of this Agreement (the "Effective Date"), the Policy is hereby terminated and commuted in full, and no provision of the Policy shall survive such termination. Notwithstanding the foregoing, nothing in this Agreement shall operate as a release of the obligations of Ambac under the Policy to any Bondholder (as defined in the Policy) that is not a signatory hereto with respect to any claims for payment from Ambac as described in the fourth paragraph of the Policy resulting from payments made by or on behalf of the Issuer in respect of the principal of, or interest on, the Bonds on or prior to the Effective Date (subject to the terms and conditions of the Policy).

Section 1.2 Premium. The Company hereby acknowledges and agrees that: (a) payment of the full amount of the premiums was paid by the Company to Ambac on the date of issuance of the Bonds and (b) it is not entitled to the return or refund of any portion of the premium paid to Ambac (whether earned or unearned as of the Effective Date) in consideration for the issuance of the Policy.

Section 1.3 Fees and Expenses. In connection with the termination of the Policy and the execution of this Agreement, the Company hereby agrees to pay all fees, expenses and disbursements of Ambac's outside counsel incurred in connection with the termination of the Policy and the execution of this Agreement.

Section 1.4 Other Conditions. The Company agrees that (a) it has delivered, or will deliver, as of the Effective Date, (i) a legal opinion of bond counsel opining that the actions in connection with the termination of the Policy will not have an adverse effect on the tax-exempt status of the Bonds and (ii) a legal opinion of counsel opining that the Agreement has been duly authorized, executed and delivered by the Company and constitutes the valid and legally binding obligation of the Company, enforceable in accordance with its terms. Each of the Remarketing Agent, the Issuer and the Trustee agree that it has delivered, or will deliver, as of the Effective Date, a legal opinion of counsel opining that the Agreement has been duly authorized, executed and delivered by such Party and constitutes the valid and legally binding obligation of such Party, enforceable in accordance with its terms. The Company agrees that the Bonds will be remarketed, or have been remarketed, pursuant to a Reoffering Circular with new CUSIPs and new credit ratings reflecting that the Bonds will no longer be insured by the Policy. The Company agrees and represents that (x) the Reoffering Circular states or will state prominently that the coverage of the Policy for the Bonds is no longer in effect and (y) filings will be made with the NRMSIRs which disclose that the coverage of the Policy relating to the Bonds is no longer in effect.

Section 1.5 Return of the Policy after Termination. After the termination of the Policy on the Effective Date, the Trustee hereby agrees to return the original Policy, or direct that the original Policy be returned, to Ambac.

## ARTICLE II

### RELEASE

Section 2.1 Parties' Release of Ambac. (a) In consideration of the provisions of the release provided in Section 2.2, but subject to Section 1.1 hereof, effective as of the Effective Date, each of the Issuer, the Remarketing Agent, the Company and the Trustee hereby forever release and discharge Ambac, and its predecessors, successors, affiliates, agents, officers, directors, employees and shareholders, from any and all past, present, and future obligations, adjustments, liability for payment of interest, offsets, actions, causes of action, suits, debts, sums of money, accounts, premium payments, reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, damages, judgments, liens, rights, costs and expenses (including attorneys' fees and costs actually incurred), claims and demands, liabilities and losses of any nature whatsoever, whether grounded in law or in equity, in contract or in tort, all whether known or unknown, vested or contingent, that the Issuer, the Remarketing Agent, the Company or the Trustee now has, owns, or holds or claims to have, own, or hold, or at any time had, owned, or held, or claimed to have had, owned, or held, or may after the execution of this Agreement have, own, or hold or claim to have, own, or hold, against Ambac, arising from, based upon, or in any way related to the Policy, including, without limitation, any claim for return or refund of any portion of unearned premium, and including, without limitation, any and all payments made by the Issuer or the Company on or prior to the Effective Date that may be avoided and recovered by a bankruptcy trustee in an applicable bankruptcy proceeding, it being the intention of the Parties that this Agreement operate as a full and final settlement of Ambac's current and future liabilities to the Issuer, the Remarketing Agent, the Company and the Trustee under and in connection with the Policy, provided, however, that this release does not discharge obligations of Ambac to the Issuer, the Remarketing Agent, the Company or the Trustee that have been undertaken or imposed by the terms of this Agreement.

(b) In the event that Ambac is required to make a payment under the Policy following a bankruptcy proceeding concerning the Issuer or any borrower of proceeds of the Bonds (including the Company), the Company hereby agrees, to the extent permitted by law, to indemnify and reimburse Ambac, from any available funds, immediately and unconditionally for (i) all amounts paid by Ambac under the Policy, (ii) all reasonable expenses incurred by Ambac in connection with such Policy payments, and (iii) all reasonable expenses incurred by Ambac in connection with the enforcement by Ambac of its rights hereunder or under the Indenture and Loan Agreement with respect to such Policy payments. To the extent that any amount due under this clause (b) is not paid when due, interest shall accrue on such unpaid amounts at a rate equal to the "prime rate" announced by Citibank, N.A. in New York from time to time, plus 2%. The obligations of the Company under this clause (b) are absolute and unconditional and will be paid or performed strictly in accordance with this Agreement, irrespective of (w) any lack of validity or enforceability of, or any amendment or other modification of, or waiver with respect to the Bonds, this Agreement or the Indenture or Loan Agreement; (x) any exchange, release or nonperfection of any security interest in property securing the Bonds, this Agreement or the Indenture or Loan Agreement, or any obligations thereunder; (y) any circumstances which might otherwise constitute a defense available to, or discharge of, the Company or the Issuer under this Agreement or the

Indenture or Loan Agreement, or with respect to the Bonds; or (z) whether or not the Company's obligations under this Agreement or the Indenture or Loan Agreement, or the obligations represented by the Bonds, are contingent or matured, disputed or undisputed, liquidated or unliquidated.

Section 2.2 Ambac Release with respect to Policy. In consideration of the release provided in Section 2.1(a), effective as of the Effective Date, Ambac hereby forever releases and discharges the Issuer, the Remarketing Agent, the Company and the Trustee, and their respective predecessors, successors, affiliates, agents, officers, directors, employees and shareholders, from any claim, right, pledge, lien, security interest or other collateral granted to the holders of the Bonds and any and all past, present, and future obligations, adjustments, liability for payment of interest, offsets, actions, causes of action, suits, debts, sums of money, accounts, premium payments, reckonings, bonds, bills, covenants, contracts, controversies, agreements, promises, damages, judgments, liens, rights, costs and expenses (including attorneys' fees and costs actually incurred), claims and demands, liabilities and losses of any nature whatsoever, whether grounded in law or in equity, in contract or in tort, all whether known or unknown, vested or contingent, that Ambac now has, owns, or holds or claims to have, own, or hold, or at any time had, owned, or held, or claimed to have had, owned, or held, or may after the execution of this Agreement have, own, or hold or claim to have, own, or hold, against the Issuer, the Remarketing Agent, the Company or the Trustee, arising from, based upon, or in any way related to the Policy, it being the intention of the Parties that this release operate as a full and final settlement of the current and future liabilities of the Issuer, the Remarketing Agent, the Company and the Trustee to Ambac under and in connection with the Policy, provided, however, that this release does not discharge obligations of the Issuer, the Remarketing Agent, the Company or the Trustee to Ambac that have been undertaken or imposed by the terms of this Agreement, including pursuant to Section 2.1(b). Notwithstanding the foregoing, nothing in this Agreement shall operate as a release or termination of the rights of Ambac as subrogee of the rights of the holders of the Bonds under the Indenture or the Loan Agreement, to the extent that Ambac is required to make any payment under the Policy to such holders pursuant to the fourth paragraph of the Policy.

Section 2.3 Indemnification. The Company hereby covenants and agrees to indemnify and hold harmless the Issuer and the Issuer's elected and appointed officials against any damage or liability arising as a result of the execution and delivery by the Issuer of this Release Agreement or the effectuation of the provisions hereof.

### ARTICLE III

#### REPRESENTATIONS AND WARRANTIES

Section 3.1 Representations and Warranties of Each Party. Each Party hereto represents and warrants to the other Parties that:

- (a) the execution of this Agreement is fully authorized by it;
- (b) the person or persons executing this Agreement on its behalf have the necessary and appropriate authority to do so;

(c) it has no notice of any pending action, agreements, transactions, or negotiations to which it is a party or is likely to be made a party that would render this Agreement or any part thereof void, voidable, or unenforceable; and

(d) any authorization, consent, or approval of any governmental entity required to make this Agreement valid and binding has been obtained.

Section 3.2 Representation and Warranty of the Remarketing Agent. The Remarketing Agent hereby represents and warrants to the other Parties that it beneficially owns all of the Bonds and it is entitled to vote as the sole holder of the Bonds, or on behalf of the holders of the Bonds, in connection with actions permitted under the Indenture and Loan Agreement and for the purposes of such actions as contemplated by this Agreement.

#### ARTICLE IV

#### MISCELLANEOUS

Section 4.1 Headings. Headings used herein are not a part of this Agreement and shall not affect the terms hereof.

Section 4.2 Notices. All notices, requests, demands and other communications under this Agreement must be in writing and will be deemed to have been duly given or made as follows: (a) if sent by registered or certified mail in the United States, return receipt requested, upon receipt; (b) if sent by reputable overnight air courier, two business days after mailing; (c) if sent by facsimile transmission, with a copy mailed on the same day in the manner provided in (a) or (b) above, when transmitted and receipt is confirmed by telephone; or (d) if otherwise actually personally delivered, when delivered, and shall be delivered as follows:

(a) If to Ambac:

Ambac Assurance Corporation  
One State Street Plaza, 19<sup>th</sup> Floor  
New York, New York 10004  
Attention: Legal Department  
Facsimile: (212) 208-3384  
Telephone: (212) 668-0340

(b) If to the Issuer:

Louisville/Jefferson County Metro Government, Kentucky  
527 West Jefferson Street  
Louisville, Kentucky 40202  
Attention: Mayor  
Facsimile: (502) 574-2003  
Telephone: (502) 574-5354

(c) If to the Remarketing Agent:

Morgan Stanley & Co. Incorporated  
1221 Avenue of the Americas, 27<sup>th</sup> Floor  
New York, New York 10020  
Attention: Jay Sweeney, Managing Director  
Facsimile: \_\_\_\_\_  
Telephone: \_\_\_\_\_

(d) If to the Trustee:

The Bank of New York  
101 Barclay Street, 8<sup>th</sup> Floor West  
New York, New York 10286  
Attention: Corporate Trust Trustee Administration  
Facsimile: \_\_\_\_\_  
Telephone: \_\_\_\_\_

(e) If to the Company:

E.ON U.S. LLC  
220 West Main Street  
Louisville, Kentucky 40202  
Attention: Treasurer  
Facsimile: (502) 627-4742  
Telephone: (502) 627-4956

or to such other address or to such other person as a Party may have last designated by notice to the other Party.

Section 4.3 Successors and Assigns. This Agreement shall be binding upon and shall inure solely to the benefit of the Parties hereto and their respective successors, assigns, receivers, liquidators, rehabilitators, conservators and supervisors, it not being the intent of the Parties to create any third party beneficiaries, except as specifically provided in this Agreement.

Section 4.4 Execution in Counterpart. This Agreement may be executed by the Parties hereto in any number of counterparts, and by each of the Parties hereto in separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Section 4.5 Amendments. This Agreement may not be changed, altered or modified unless the same shall be in writing executed by all of the Parties.

Section 4.6 Governing Law. This Agreement will be construed, performed and enforced in accordance with the laws of the Commonwealth of Kentucky without giving effect to its principles or rules of conflict of laws thereof to the extent such principles or rules would require or permit the application of the laws of another jurisdiction.

Section 4.7 Entire Agreement. This Agreement contains the entire agreement of the Parties with respect to the subject matter of this Agreement, and supersedes all other prior

agreements, understandings, statements, representations and warranties, oral or written, express or implied, by and among the Parties and their respective affiliates, representatives and agents in respect of the subject matter hereof.

Section 4.8 Severability. If any provision of this Agreement is held to be void or unenforceable, in whole or in part, (i) such holding shall not affect the validity and enforceability of the remainder of this Agreement, including any other provision, paragraph or subparagraph, and (ii) the Parties agree to attempt in good faith to reform such void or unenforceable provision to the extent necessary to render such provision enforceable and to carry out its original intent.

Section 4.9 No Waiver; Preservation of Remedies. No consent or waiver, express or implied, by any Party to or of any breach or default by any other Party in the performance by such other Party of its obligations hereunder shall be deemed or construed to be a consent or waiver to or of any other breach or default in the performance of obligations hereunder by such other Party hereunder. Failure on the part of any Party to complain of any act or failure to act of any other Party or to declare any other Party in default, irrespective of how long such failure continues, shall not constitute a waiver by such first Party of any of its rights hereunder. The rights and remedies provided are cumulative and are not exclusive of any rights or remedies that any Party may otherwise have at law or equity.

Section 4.10 Incontestability. In consideration of the mutual covenants and agreements contained herein, each Party hereto does hereby agree that this Agreement, and each and every provision hereof, is and shall be enforceable by and among them according to its terms, and each Party does hereby agree that it shall not, directly or indirectly, contest the validity or enforceability hereof.

Section 4.11 Confidentiality. To the fullest extent permitted by applicable law (except with respect to the Issuer, which is required to abide by public records laws), this Agreement shall be maintained in confidence by the Parties, except as may be required to enforce the provisions of this Agreement in a judicial proceeding or arbitration.

[signature pages to follow]

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be duly executed and delivered by their proper and duly authorized representatives as of the date first above written.

AMBAC ASSURANCE CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK

By: \_\_\_\_\_  
Name:  
Title:

MORGAN STANLEY & CO. INCORPORATED

By: \_\_\_\_\_  
Name:  
Title:

LOUISVILLE GAS AND ELECTRIC COMPANY

By: \_\_\_\_\_  
Name: Daniel K. Arbough  
Title: Treasurer



LOUISVILLE/JEFFERSON COUNTY METRO  
GOVERNMENT, KENTUCKY

By: \_\_\_\_\_

Name: Jerry E. Abramson

Title: Mayor

APPROVED AS TO FORM AND LEGALITY:

Mike O'Connell

Jefferson County Attorney

By: \_\_\_\_\_

Name: James T. Carey

Title: Assistant County Attorney

## SCHEDULE A

### Ambac Financial Guaranty Insurance Policy

Ambac Financial Guaranty Insurance Policy, policy number 17289BE related to the Bonds, including all endorsements thereto.